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Vicom Multimedia Inc.

1998 Annual Report



Mission Statement

To excel in a global marketplace as a profitable and innovative developer of multimedia software, products and services, fostering high performance, integrity and uncompromising customer service.

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THE COMPANY

Vicom Multimedia Inc. (ASE:VMI) is one of Canada's oldest and largest full service media production and product (content) development and distribution companies. Its focus is on technology-enabled learning, performance enhancement and corporate communications. The Company has two distinct business areas.

Media Production Services

Through its Western Canadian production operations in Edmonton, Calgary, Regina and Saskatoon, Vicom offers a full range of production services, including:

- ◆ Video and Broadcast TV
- ◆ Interactive Multimedia (CD-ROM or On-Line)
- ◆ Web and Internet Applications
- ◆ Pre-press
- ◆ Slides and Computer Graphics
- ◆ Digital Photography
- ◆ Animation

Product Development and Distribution

Vicom currently owns and distributes a number of technology-enabled products focused on well-defined vertical markets in Industrial Health and Safety, Education and General Health and Wellness. Vicom's strategic business focus is to grow the product development and distribution business through ongoing investment in creating its own products by using leading-edge technologies, acquiring products and product development companies, along with developing distribution channels and relationships to get these products to market.

The Company's Strengths and Advantages

The Company is built on a solid foundation that includes:

- ◆ 20 years of experience
- ◆ over 3,000 projects
- ◆ more than 75 major industry awards
- ◆ the Chamber of Commerce Customer Service Award of Excellence
- ◆ a strong financial position
- ◆ a competent and experienced management team
- ◆ a commitment to sound and workplace-proven instructional design
- ◆ integrated production management with financial systems and processes
- ◆ effective use of training and communication technology

The basis of any successful company is its committed, motivated, and capable people.



PRESIDENT'S REPORT



A VISION FOR GROWTH WITHIN THE CHAOS OF CHANGE

Preparing for Growth

The Only Constant is Change. This well worn cliché rings true more often than many of us would like. We are challenged to define and create a vision for corporate growth within this volatile environment, and to further determine and implement the strategies and tactics to make this vision a reality.

Since going public in 1994, Vicom Multimedia Inc. has made a number of dramatic changes, but none compare with those taken this past year. Every part of the Company was affected and we believe our response has positioned us well for future success. We have come to terms with the fact that change is here to stay, and while we have created a vision for growth, we have also created a nimble operation that can respond to the changes we will most certainly face in the future.

The following reviews the major changes made by the Company this year, and paints our vision for the future – a future responsive to the new realities we are facing; a future based on the strength of our core competencies.

Our Core Competencies

Vicom's expertise is in creating technology-enabled solutions for learning and communication. For 20 years, Vicom has used the latest communication technology available, ranging from video and CD-ROM, to Internet applications – to help our clients meet their training and communication

needs. With more than 3,000 completed projects, Vicom offers unequalled experience in instructional design, project management and media production. We have developed the production processes, software engines and the financial management systems to ensure cost effective creation of world-class new media applications. These core competencies enabled us to conceive and develop the products that were the basis of our Initial Public Offering, determined the major activities undertaken this year, and continue to provide the foundation of our vision for the future.

In 1994 Vicom was faced with the need to move from a "one-off", fee-for-service business to one of creating, owning, and distributing intellectual properties. This strategic change in our business model demanded up-front investment, promised greater margins and recurring revenues, and was the foundation of our Initial Public Offering.

Vicom Multimedia Inc. initially launched two software products; SmartCatalog™ and Nereus™, and a proprietary safety training product for the industrial health and safety market, SAFE-T-Disc™. While SmartCatalog and Nereus achieved a certain level of success, we made a conscious effort to refocus our efforts in our area of greatest competence, the creation and distribution of content products.

Our Software Businesses

Overall, our venture in software development met with varying degrees of success. It became apparent, however, that to realize the full potential, the markets for our software demanded partnerships and investment outside of Canada. We aggressively campaigned to find partners with proven experience in commercializing software for those specific markets and we believe that our campaign was successful.

SmartCatalog

In 1993, Vicom began development of one of the first software products to enable the creation of multimedia catalogues with e-commerce capability. This product was developed to a level of commercialization in early 1995, well ahead of market readiness. We continued development, and in 1997 merged the SmartCatalog division with Houston-based DataCat International Inc. Vicom continued to invest in DataCat and in 1998, began to actively pursue buyers for the company. After negotiating with a number of potential buyers, in June 1998, we signed an agreement with Fisher Scientific for \$3.5 Million. The final payment for this sale will be received in the second quarter of 1999, providing Vicom Multimedia Inc. with a significant return on investment.





Nereus

In mid 1994, Vicom Multimedia Inc. commenced research and design of a unique technology – the Nereus Multimedia Publishing System. Nereus was initially designed to meet the needs of Sony of America to automate the creation of multimedia technical service and maintenance manuals. Based on more than ten years experience in creating multimedia applications, we were well aware of the inadequacies of existing software tools. Supported by grants from Canada's National Research Council, Vicom built a prototype in support of our Initial Public Offering. Enhancements to that prototype enabled us to raise an additional \$10 million in Special Warrants in 1996. Continued investment in the maturing product resulted in sales to a number of high-profile reference accounts, including Newbridge Networks, Lockheed Martin, and a number of U.S. Government accounts. In early 1998, Vicom sought out OSHAP Technologies Inc., an Israeli-based public company with proven expertise in commercializing technology. In a deal finalized in June of 1998, OSHAP bought 55 percent of the Nereus technology for \$6 million, and took over all operational responsibilities.

Over the last nine months, a new management team was assembled, and the technology has been refocused on providing Maintenance Execution Performance Systems (MEPS). MEPS improves maintenance productivity, resulting in improved equipment up-time. Based on this new direction, the company was re-named iKnowledge, Inc.

The iKnowledge "PerformanceWare" family of products is an enterprise-wide application that captures and manages maintenance knowledge. PerformanceWare makes maintenance knowledge such as technical documentation, computer-based training, and best maintenance practices, readily accessible to field maintenance staff and shop floor workers. Critical "how to" knowledge of the prescribed repair is provided directly to the maintenance employee, resulting in faster, more efficient procedures.

iKnowledge is focusing its sales efforts to leading plant floor maintenance and field service organizations in the process and discrete manufacturing industries.

We are hopeful that our investment in iKnowledge will provide a good return for our shareholders in the years ahead.

Newhaven Acquisition

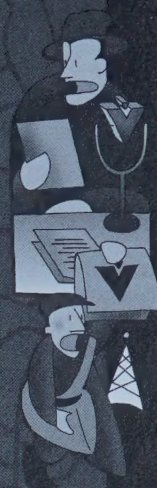
In the summer of 1998, we were approached by the President and a number of the Directors of Newhaven Media Inc. and asked to consider a merger/acquisition. It soon became apparent, however, that the company was in financial difficulty. Our initial evaluation of the operation identified a number of solid, profitable operating divisions within the company. Although our long term business plan did not include an increase in our service capability, we recognized a good strategic fit with these divisions – three pre-press operations in Calgary, Regina and Saskatoon, and a video production division in Saskatoon. We also recognized that the acquisition would give us a presence in the four major centres in Alberta and Saskatchewan – Saskatoon, Regina, Calgary and Edmonton.

Digital media – still images, logos, or video and audio segments, are strategic investments that companies make and use in communication and training programs. The Newhaven acquisition allows Vicom to better provide the entire spectrum of new media solutions to our Western Canadian customer base and support our move into content production and ownership.

After further evaluation of the assets and receivables, we made an offer for the assets of these four divisions. The acquisition provided us with the opportunity to increase not only our range of services, but also our service revenue by approximately \$1 to \$2 million. We also believed each of these operations could be a profit center within six months – and we are close to achieving this goal.

Each division was set up to operate independently, with its own management team and bottom line accountability. While a significant amount of corporate management time and resources were required initially, these divisions continue to prove their independent operation within Vicom's management and financial systems.

The TrueColor pre-press operation has recently moved into the same building as Vicom Productions Calgary, providing reduced general administration costs through shared resources. The integration of these operations offers leverage to both divisions through shared customers and sales activities.





Our Service Business

For twenty years, our foundation has been our fee-for-service business, providing both cash flow and the core competencies necessary to take on new ventures. Management has turned its focus towards identifying our growth strategy and re-evaluating our service business.

Re-structuring

An evaluation of our service business determined the need to reduce our fixed overhead, while maintaining our core competencies and expertise. In September 1998, we instituted the first phase of a structural change that saw us move 13 of our full-time staff to Preferred Contractor status. The change was handled positively, with careful consideration given to assisting affected staff start up new businesses. This change has resulted in a more effective and efficient organization and has given us access to a flexible pool of talented craftspeople on which to draw, project by project, to best satisfy our requirements for various specialized skills.

The trend of declining revenue from our fee-for-service market continued during the last quarter of 1998. An evaluation of this trend clearly indicated the demand for a more efficient solution than additional downsizing. A radically different structure and operating mentality was needed. In essence our service business had become a price sensitive commodity. Vicom's corporate overhead put our production divisions in a non-competitive situation.

A number of alternatives are presently being evaluated. The final solution must ensure Vicom reduces its operating overhead while retaining a preferred relationship with these production businesses. The resulting structure must retain Vicom's investment in its people, and demonstrate a return on our investment in people, reputation and our quality production process.

Our new business strategy will continue to rely on the capabilities of our production centres for two things:

- ◆ creation of our own intellectual content products, and
- ◆ provision of customization services to customers buying these products.

Our Vision for Growth

The Creation, Ownership and Distribution of Internet-Based Training Solutions

Our vision for growth involves an aggressive move from a fee-for-service business to one of creating, acquiring, and distributing intellectual content products. The revenue stream is primarily made up of sales and distribution of our own intellectual "content" products and from product customization. There are a number of key factors driving this strategy:

- ◆ our core expertise is in creating technology-enabled training applications
- ◆ fee-for-service is on the decline, off-the-shelf products are on the rise
- ◆ a continuing growth in the corporate use of learning technologies
- ◆ a continuing growth of low cost global networks reducing our hold on local markets and opening larger markets
- ◆ the recent success of our SAFE-T-Disc product line
- ◆ the new Internet-based SAFE-T-Disc product and distribution model

We believe this type of business will offer greater margins and a significant reduction in the cost of sales. Furthermore, it effectively builds on our twenty-year investment developing world class expertise in designing and building technology-based training applications.

Recent re-engineering of our core technology has automated the production process, and more importantly, created an Internet-based product offering. We can now offer our courseware on-line using a "transactional" model whereby users pay for training on a per-head basis. The pay-per-use transactional model is the basis of the dramatic growth of Internet-based e-commerce. While this model requires up front investment, it offers a much larger, recurring revenue stream. Vicom will retain secure control over the on-line user management database which will contain all information required to audit and record learning activities and e-commerce transactions.

Industrial Health and Safety

We have identified Industrial Health and Safety as the vertical market holding the greatest immediate promise for growth and profitability. This strategy is based on our success in creating a wide range of health and safety programs over our twenty year history and more specifically, the success of our SAFE-T-Disc line of products. Industry trends indicate that compliance in these areas is a growing challenge for corporations. Our model offers an attractive solution by providing corporations with cost effective delivery and documentation of recognized safety training.





SAFE-T-Disc

SAFE-T-Disc is a brand of safety-related training products built on a proven design, tracking systems, and development engine. The first SAFE-T-Disc content product, the Construction Safety Training System, was Vicom's initial endeavor in the creation and ownership of intellectual property. Originally developed to provide safety training to the construction industry in Alberta, it is rapidly becoming the standard for industrial safety training in Canada and the United States. Recently, U.S. construction workers taking SAFE-T-Disc training have received acceptance by the Occupational Safety and Health Administration (OSHA) as being compliant with its ten hour standard training course. SAFE-T-Disc training is usually completed in approximately half that time and can be delivered where and when it is required.

The SAFE-T-Disc model is unique in a number of ways:

- ◆ The new version is a unique mix of Internet and CD-ROM technologies - the Internet-based user management is key. While the media rich data (video, audio) resides locally on a CD, the registration, test data, and all e-commerce transactions are managed on a central server accessed over the Internet. This changes the revenue model from the traditional one of selling product, to an "Internet-Based Transactional Model". This model does not have a front-loaded revenue stream, but offers a back-end, recurring revenue stream with much greater revenue potential.
- ◆ With the new Learner Contract sales model, companies purchase the training they require on a per-head basis. This reduces their up-front costs, and ties the cost of training directly to the number of workers trained.
- ◆ Partnerships are established with local industry associations - providing the associations with a cost effective way to train their membership and generate a new revenue stream.

We have begun to apply the SAFE-T-Disc model to a number of other fields and sectors, most recently to a \$500,000 project for the Alberta Roadbuilders Association. In addition to being paid to develop the Roadbuilders Safety Training System (RSTS), Vicom also acquired the distribution rights for RSTS. Our plan is to continue to grow this model and line of products, and establish Vicom and the SAFE-T-Disc products as best of breed in this potentially lucrative market. Within the Industrial Health and Safety vertical market, we have identified a number of specific industry sectors that we will focus our growth on. These sectors include the pipeline, hospitality, manufacturing and transportation, healthcare, mining, retail and process industries.

With thousands of workers throughout North America using the products, recent OSHA acceptance, and independent studies validating its effectiveness, our SAFE-T-Disc line of products has already demonstrated the potential in ownership and distribution of intellectual content products.

Looking Forward

The future is our challenge, but also our opportunity. We believe decisions made last year have positioned us well to take advantage of the opportunity. We are in a strong financial position, and we continue to reduce overhead associated with our service business. We have moved our focus to products based on our core competencies, a successful product and an Internet-based transactional model. As well, we continue to evaluate growth opportunities that fall within our area of expertise – the creation of technology-enabled learning – that can be delivered over the Internet.

We believe our share price reflects our historical performance in the software business. This year, as we return our focus to our expertise in the creation of content and leveraging that expertise through our proven SAFE-T-Disc sales and distribution model, we hope to regain the confidence of our investors. The market for technology-enabled learning is still in its infancy with projections for tremendous growth. While our initial offering used only CD-ROM technology, our new product engine and management software has been re-purposed to include Internet delivery. The key is to match the technology to customer expectations and readiness. Regulatory compliance, particularly in the area of Environmental Health and Safety, is growing in importance. Our technology and product offering is well aligned with both the immediate needs of our target market and the rapid growth and acceptance of Internet-based delivery.

The Internet delivery, and e-commerce transactional model associated with Vicom's SAFE-T-Disc product line, offers a vision for growth within the chaos of change. A vision and model that can be applied to many other markets.





MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management has prepared the following discussion as a review of the Company's operating results and financial condition based on Canadian generally accepted accounting principles. It should be read in conjunction with the Company's 1999 audited consolidated financial statements, including the notes thereto.

General

Net earnings for the year ended January 31, 1999 were \$1,093,128 (\$0.06 per share), compared with a loss of \$5,146,250 (\$0.28 per share) for the prior year. These results are largely attributable to a number of initiatives undertaken by the Company over the last year. These include the transfer of its software operations to a new entity, the sale of its interest in SourceSys, Inc., and expansion of the range and geographic coverage of its service business through acquisition of a pre-press business and a video production facility.

- ◆ Effective March 1, 1998, Vicom transferred the assets of the Nereus division to a newly created company, Nereus Technologies, Inc. (now called iKnowledge, Inc.) in exchange for 45.45% of the shares. OSHAP Technologies Inc. and its partners invested \$6,000,000 cash in exchange for the remaining interest. Through this transaction, Vicom was able to collaborate with a partner for the continued product and market development of the core technology underlying the Nereus software product. The OSHAP financing provided the financial support to allow iKnowledge, Inc. to continue development.
- ◆ Effective June 10, 1998, Vicom sold its joint venture interest in SourceSys, Inc. to Fisher Scientific International Inc. for approximately \$3,500,000, thereby recognizing a pre-tax gain of approximately \$3,000,000 during the current fiscal year.
- ◆ Effective September 24, 1998, the Company purchased a majority of the assets of Newhaven Media Inc., a company engaged in pre-press operations in Calgary and Regina, and both pre-press and video production in Saskatoon. Newhaven and its predecessors had been actively engaged in pre-press and video production for more than ten years, had developed a substantial market presence and were noted for high quality work.

Results of Operations

As noted above, during the year the Company divested its investment in SourceSys, Inc. Accordingly, the financial statements reflect the net results of those operations for the current and prior year as discontinued operations. In addition, as a result of the reduction of Vicom's interest in the Nereus operations to 45.45% as of March 1, 1998, the financial statements reflect the operations of Nereus for one month only compared with twelve months for the prior year. The operations of SAFE-T-Disc have been reclassified from Media Production Services to Product Development and Distribution for the current and prior year, due to its increasing significance and future direction. To facilitate analysis of the financial results, a discussion of results on a segmented basis is provided, followed by a discussion of overall results on a line item basis.

Segmented Results

Operations highlights for each of the Media Production Services and Product Development and Distribution segments for fiscal 1999 and 1998 are shown below in Tables 1 and 2, respectively.

Table 1
Operations highlights for the year ended January 31, 1999 (\$000's)

	Media Production Services		Product Development and Distribution		Unallocated Corporate	Consolidated
	Media Production	Pre-Press	Nereus (including FocalCorp)	SAFE-T-Disc		
Revenue	3,746	440	8	440		4,634
Gross profit	1,108	151	(46)	318		1,531
Interest income	-	-	-	-	70	70
Selling, marketing, general and administrative	1,144	281	103	159	1,046	2,733
Amortization	386	20	9	8	392	815
All other expenses	-	-	66	-	-	66
Total expenses	1,530	301	178	167	1,438	3,614
Net loss from operations	(422)	(150)	(224)	151	(1,368)	(2,013)
Income tax benefit						1,052
Loss from continuing operations						(961)
Discontinued operations						2,054
Net earnings from all operations						1,093



Table 2
Operations highlights for the year ended January 31, 1998 (\$000's)¹

	Media Production Services		Product Development and Distribution		Unallocated Corporate	Consolidated
	Media Production	Pre-Press	Nereus (including FocalCorp)	SAFE-T-Disc		
Revenue	4,490	-	686	220		5,396
Gross profit	1,299	-	264	179		1,742
Interest income	-	-	-	-	100	100
Selling, marketing, general and administrative	1,190	-	1,952	185	1,280	4,607
Amortization	225	-	102	7	120	454
All other expenses	13	-	955	-	-	968
Total expenses	1,428	-	3,009	192	1,400	6,029
Net loss from continuing operations	(129)	-	(2,745)	(13)	(1,300)	(4,187)
Discontinued operations						(959)
Net loss from all operations						(5,146)

¹ Reclassified to provide information on a comparative basis

MEDIA PRODUCTION SERVICES

Media Production

Revenue from media production was \$3,746,000 this year compared to \$4,490,000 last year. The reduction is attributable to increased competition in multimedia development and reduced demand for video production services. The increased competition is due largely to the low barriers to entry into the multimedia market. The additional competition creates confusion in the market, resulting in large variations in price and service levels. Customers have difficulty differentiating the levels of professional quality offered in such a range of services, and usually choose suppliers based on price. Vicom is recognized for its high quality, larger and more complex productions and has not traditionally been the low price provider in the marketplace. The reduced demand for video production services, slides and imaging services, reflects the general service slowdown in the Edmonton and Calgary markets.

The 1999 gross profit of 30% was relatively unchanged compared to 29% last year. The 1999 gross profit reflects the increased competition, while 1998 results reflect Management's decision to utilize internal resources to invest in longer term projects in exchange for an equity interest therein. These margin levels also continue to reflect unutilized capacity in the media production area. Management undertook cost containment initiatives in the third quarter, including the conversion of 13 staff positions to contract.

Selling, marketing, general and administrative costs remain comparable to last year.

The Media Production Group operations include the operations of Saskatoon Video Production from September 24, 1998, the date of acquisition. Since acquisition, this operation, which was acquired out of a financially distressed situation, was re-establishing its market presence, during which it incurred a loss of \$50,000.

Pre-Press

During 1998, Vicom acquired the pre-press operations of Newhaven Media Inc. in Regina, Saskatoon and Calgary. Management believes the assets were acquired at a very favorable price and it was determined to be a strategic fit with Vicom's other production operations. As well, since key staff indicated a commitment to continuing on with Vicom, it was felt that customer loyalty could be maintained in this service business. Furthermore, this acquisition allows Vicom to offer a full range of media production and pre-press services in Western Canada.

The financial statements include these operations effective September 24, 1998. As the operations were acquired from a financially distressed situation, operations during the initial post acquisition period were somewhat lower than the historical trend, but generally, revenue has continued to show an upward trend since acquisition.

PRODUCT DEVELOPMENT AND DISTRIBUTION

Nereus (including FocalCorp)

At last year's Annual Meeting, shareholders approved the transfer of the Nereus and FocalCorp assets to a newly created company called Nereus Technologies Inc. (now called iKnowledge, Inc.) to be controlled by third parties. Outside investors purchased \$6,000,000 of treasury stock in the new company, such that they obtained 54.55% of Nereus Technologies Inc. The Nereus and FocalCorp assets transferred to the new company by Vicom, were valued at \$5,000,000. However, the investment is recorded at the Company's carrying value of the net assets transferred. iKnowledge, Inc. is considered to be a development stage entity, and as such, near term earnings are indeterminable. As a consequence, the Company did not record any gain on the disposition of the net assets, nor has it recorded any of the results of the operations of the new company. The results included in the Company's current year represent the operations for the month of February 1998 only. The comparative results include the full year of operations to January 31, 1998.

While the Company is accounting for this long term investment at cost, it is worth noting that iKnowledge, Inc. has continued developing and marketing the transferred technology. iKnowledge, Inc. has refined the product direction to Maintenance Execution Performance Systems. As such, the product may have a wider market audience. In addition, significant enhancements have





been made to the underlying technology to appeal to larger customers seeking an enterprise wide solution. However, at this stage it is too early to tell whether iKnowledge, Inc. will be successful and what the outcome of the investment will be.

SAFE-T-Disc™

The operations of this Division have been segregated because of Management's belief that this area has the potential for significant future growth.

Revenue doubled from \$220,000 last year to \$440,000 as a result of increased market acceptance of multimedia as an alternative to traditional training delivery methods.

While gross margins as a percentage decreased from 81% last year to 72% this year as a result of an increase in product licensing through distributors, selling, marketing and general and administration expenses also decreased from 84% to 37% as a result of this shift to more distributor based sales.

Discontinued Operations - SourceSys Joint Venture

Effective June 10, 1998, Vicom sold its investment in SourceSys, Inc. for \$3,500,000. For details regarding this transaction, refer to Note 7 of the consolidated financial statements.

OVERALL RESULTS

Revenues decreased from \$5,396,000 to \$4,634,000 due to several factors. Current year Nereus results include only \$8,000, being one month of operations, compared to revenues for the full twelve months last year of \$686,000, a reduction of \$678,000. For details regarding the transfer of Nereus assets, refer to Note 4 in the consolidated financial statements. Media production revenues for the current year total \$3,746,000, down \$744,000 from last year's revenue of \$4,490,000. SAFE-T-Disc revenues doubled from \$220,000 last year to \$440,000 for the current year. Pre-press operations for this year totalled \$440,000 for approximately four months of operations since acquisition.

Gross profit as a percentage improved only slightly from 32% last year to 33% for the current year, reflecting a continuing competitive marketplace for our service businesses.

Selling, marketing, general and administrative expenses have decreased by \$1,874,000 from \$4,607,000 last year to \$2,733,000 this year, largely as a result of the transfer of Nereus operations to the new company effective March 1, 1998 (Note 4).

Amortization expense has increased significantly from last year for two reasons. Firstly, during the year the Company revised its estimates of the useful lives of capital assets and increased the rates of amortization on a prospective basis,

resulting in increased amortization of approximately \$200,000 over what it would have been for this year utilizing the previous rates. Secondly, a write down of approximately \$250,000 is included, reflecting Management's revised estimates of the recoverable value of capital assets.

All other expenses, comprised mainly of research and development, decreased from \$968,000 to \$66,000, again reflecting the transfer of Nereus operations to the new company (Note 4).

Income tax recoveries on continuing operations arise as a result of utilization of current year and prior year operating losses being applied against the gain on sale of the Company's investment in SourceSys, Inc.

During fiscal 1999, the Company disposed of its joint venture interest in SourceSys, Inc. Consequently, the financial statements were reclassified to reflect this joint venture investment as discontinued operations for both periods presented. For details refer to Note 7 to the consolidated financial statements.

Liquidity and Capital Resources

The Company's cash and short term investments balance increased significantly to \$2,301,000 as at January 31, 1999 from \$1,275,000 at January 31, 1998. The increase reflects the significant proceeds received with respect to the sale of the discontinued SourceSys, Inc. joint venture interest. Cash utilized in continuing operations declined significantly from \$3,315,000 in 1998 to \$535,000 in 1999. This decrease is largely attributable to the transfer of Nereus operations to the new company, which is now being accounted for on a cost basis. The cash required to fund working capital reflects the additional accounts receivable related to the Newhaven pre-press and video production operations acquired in the current year, combined with reduced accounts payable balances resulting from the Nereus transfer. Financing activities reflect the full repayment of the Government of Canada, Department of Western Economic Diversification debt. Additionally, the Company repurchased 660,000 common shares at a cost of \$92,966 pursuant to the Company's Normal Course Issuer Bid. Investment activities reflect the proceeds on disposal of the SourceSys, Inc. joint venture interest and the acquisition of the Newhaven multimedia operations. In addition to its substantial cash and short term investment balances, the Company has access to authorized credit facilities of \$1,300,000, which were not being utilized at January 31, 1999. The credit facilities are subject to annual renewal by the lenders.

Risks and Uncertainties

The Company is subject to the risks normally associated with the operation of a software product development and production service business. The Company must ensure that adequate systems and resources are available to respond to competitor advances or market demands.





The success of the Company is, and will always be, dependent on its ability to retain strong management and skilled personnel. The loss of such personnel could negatively affect the Company.

Service revenues are highly dependent on the Alberta and Saskatchewan economy, and more particularly in the Edmonton and Calgary markets. The number of competitors in each of these markets is very high. Vicom distinguishes itself in these markets by being one of the largest players in the local markets. While price sensitivity is always an issue on smaller production service contracts, the Company's market niche is typically seen as being in the higher volume production jobs where its twenty years of experience is viewed by Management as a strong competitive edge. The Company is aware of the decline in profitability in the service business and continues to look at methods of improving profitability.

There are a number of risks associated with the development and marketing of technology based products such as those marketed by the Company. The multimedia markets are relatively new and technology is changing rapidly. The Internet and the World Wide Web have, and will continue to have, an impact on the multimedia market.

The value of the Company's investment in iKnowledge, Inc. is also at risk until the product is commercially available and accepted by its target market.

Year 2000 Issues

The Company's Year 2000 Readiness Program is currently on schedule. The Year 2000 Project Team has compiled a comprehensive list of all computer hardware and software and embedded chip technologies and business processes, including those having significant third party interdependencies. A risk assessment and business impact analysis of each item is being completed and the Company is prioritizing its efforts and resources towards an objective that all critical processes and assets become Y2K compliant. The Company also has efforts underway that all training products licensed by the Company will be Y2K ready, and the Company's customers will be advised, on a best efforts basis, of required upgrades to assist with their own Y2K readiness programs. Some critical systems, such as the accounting system, have been replaced under a business system upgrade project, thereby reducing the risk of failure.

In addition, the Year 2000 Project Team has identified third parties whose Y2K non-compliance may have a significant effect on the ability of the Company to continue to conduct its business without disruption from Year 2000 problems. Dialogue has been, or will be, established with these entities in order to ascertain whether they will be Year 2000 compliant in advance of January 1, 2000.

Preliminary cost estimates for achieving Year 2000 compliance for the Company are approximately \$60,000, including \$30,000 in capital costs and \$30,000 of operating costs, with approximately \$10,000 having already been incurred as at the end of January 1999. No material resource constraints have been encountered to date. Although management believes this estimate to be reasonable, there can be no assurances that the actual costs of the project will not differ materially from the estimated costs as the risk assessment program moves ahead.

Despite the Company's best efforts, there can be no guarantees that all systems and applications will continue without interruption through January 1, 2000 and beyond. Limited testing ability on commercial software packages, and the complexity of identifying all of the micro-processors that may be contained in a great variety of hardware used for multimedia and interactive training systems, may result in non-compliant systems directly affecting the Company. Despite ongoing dialogue with interdependent third parties, there can be no assurances that their systems will be fully Y2K compliant. In addition, as the Company does not have ongoing service contracts with customers, it may not be possible for the Company to contact all previous licensees with respect to product upgrades required in their Year 2000 readiness programs. Failures that result in substantial disruptions of business could ultimately be material to the Company.





MANAGEMENT'S REPORT

The consolidated financial statements of Vicom Multimedia Inc. were prepared by Management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this annual report is consistent with those financial statements.

Management has designed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded and to facilitate the preparation of financial statements for reporting purposes.

KPMG, as the external auditors appointed by the shareholders, have conducted an independent examination in order to express their opinion on the consolidated financial statements. These financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.



Paul H. Braconnier
Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Vicom Multimedia Inc. as at January 31, 1999 and 1998 and the consolidated statements of operations and retained earnings (deficit) and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 1999 and 1998 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Edmonton, Canada
March 26, 1999

VICOM MULTIMEDIA INC.

Consolidated Balance Sheets

January 31, 1999 and 1998

	1999	1998
Assets		
Current assets:		
Cash and short-term investments	\$2,300,503	\$1,274,570
Accounts receivable and accrued revenue	1,292,284	1,050,274
Prepaid expenses and other assets	78,923	109,777
	<u>3,671,710</u>	<u>2,434,621</u>
Capital assets (note 2)	1,109,813	2,128,791
Advances to joint venture (note 3)	9,630	36,380
Long-term investment (note 4)	494,770	-
Net assets of discontinued operations (note 7)	-	366,162
	<u>\$5,285,923</u>	<u>\$4,965,954</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$763,733	\$997,874
Loans payable (note 5)	53,750	499,802
	<u>817,483</u>	<u>1,497,676</u>
Shareholders' equity:		
Share capital (note 6)	13,775,125	14,288,642
Contributed surplus [note 6(a)]	420,551	-
Deficit	(9,727,236)	(10,820,364)
	<u>4,468,440</u>	<u>3,468,278</u>
Commitments (note 8)		
	<u>\$5,285,923</u>	<u>\$4,965,954</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Michael Lang
Director



Dan Chugg
Chairman and Chief Executive Officer





VICOM MULTIMEDIA INC.

Consolidated Statements of Operations and Retained Earnings (Deficit) Years ended January 31, 1999 and 1998

	1999	1998
Revenue	\$4,634,334	\$5,396,011
Production costs	3,103,335	3,654,555
Gross profit	1,530,999	1,741,456
Interest income	70,460	100,474
Expenses:		
General and administration	1,763,107	2,154,327
Marketing	158,945	1,494,451
Selling	810,757	958,301
Amortization	815,250	453,816
Research and development (note 9)	66,267	967,907
	3,614,326	6,028,802
Loss before the undernoted	(2,012,867)	(4,186,872)
Reduction in income taxes incurred on discontinued operations by application of losses of continuing operations	1,051,622	-
Loss from continuing operations	(961,245)	(4,186,872)
Discontinued operations (note 7)	2,054,373	(959,378)
Net earnings (loss) for the year	1,093,128	(5,146,250)
Deficit, beginning of year	(10,820,364)	(5,783,869)
Application by joint venture of contributed surplus to deficit (note 7)	-	109,755
Deficit, end of year	\$(9,727,236)	\$(10,820,364)
Loss from continuing operations, per share	\$(0.05)	\$(0.23)
Earnings (loss) per share [note 1(h)]	\$0.06	\$(0.28)

See accompanying notes to consolidated financial statements.

VICOM MULTIMEDIA INC.

Consolidated Statements of Changes in Financial Position Years ended January 31, 1999 and 1998

	1999	1998
Cash provided by (used in):		
Operations:		
Continuing operations:		
Loss from continuing operations	\$(961,245)	\$(4,186,872)
Amortization which does not involve cash	815,250	453,816
Loss on disposal of capital assets	17,239	-
Changes in non-cash operating working capital	(405,782)	418,421
Cash used in continuing operations	(534,538)	(3,314,635)
Discontinued operations:		
Net earnings (loss) from discontinued operations	2,054,373	(959,378)
Gain on sale of SourceSys, Inc.	(2,992,398)	-
Net changes in advances to joint venture	48,830	-
Cash used in discontinued operations	(889,195)	(959,378)
	(1,423,733)	(4,274,013)
Financing:		
Proceeds of long-term debt and loans payable	-	104,250
Repayments of long-term debt and loans payable	(446,052)	(326,678)
Redemption of share capital	(92,966)	(3,540)
	(539,018)	(225,968)
Investments:		
Proceeds on disposal of SourceSys, Inc.	3,309,730	-
Additions to capital assets	(297,811)	(568,973)
Increase (decrease) in accounts payable and accrued liabilities relating to capital asset additions	(39,515)	39,515
Proceeds on disposal of capital assets	484,300	8,350
Long-term investment	(494,770)	-
Advances from (to) joint ventures	26,750	(92,116)
Share of joint venture's capital transactions	-	109,755
	2,988,684	(503,469)
Increase (decrease) in cash	1,025,933	(5,003,450)
Cash and short-term investments, beginning of year	1,274,570	6,278,020
Cash and short-term investments, end of year	\$2,300,503	\$1,274,570

See accompanying notes to consolidated financial statements.





VICOM MULTIMEDIA INC.

Notes to Consolidated Financial Statements Years ended January 31, 1999 and 1998

The Company is engaged in multimedia, video, interactive communications and software development. The Company is subject to the provisions of the Business Corporations Act of Alberta and its shares are listed on the Alberta Stock Exchange.

1. Significant accounting policies:

(a)Basis of presentation:

These consolidated financial statements include the accounts of the Company's wholly-owned subsidiary company and the Company's proportionate interest in a joint venture, Com-Do Corp., a Canadian company.

(b)Use of accounting estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from the estimates made by management. Capital assets and goodwill and the related amortization, advances to and investment in joint ventures, long-term investments and revenue recognition are the more significant items which reflect estimates.

(c)Cash and short-term investments:

Cash and short-term investments are comprised of demand deposit amounts, money market fund units or highly liquid short-term interest bearing notes which are convertible to cash within three months.

(d)Capital assets:

Capital assets are stated at cost. Amortization is provided using rates sufficient to amortize the costs over the estimated useful lives of the assets. Amortization is provided using the declining balance method at the following annual rates:

Asset	Rate	
	1999	1998
Computer and production equipment	40%	20%
Office furnishings and equipment	25%	20%
Computer software	50%	50%
Automotive equipment	30%	30%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Notes to Consolidated Financial Statements

Years ended January 31, 1999 and 1998

1. Significant accounting policies, continued:

(d) Capital assets, continued:

During the year the Company revised its estimates of the useful lives of capital assets and increased the rates of amortization on a prospective basis. The impact of the change in rates was to increase amortization expense by approximately \$200,000 over what it would have been for fiscal 1999 utilizing the previous rates.

(e) Research and development costs:

The Company expenses research expenditures. Program and software development costs are expensed as incurred, unless they meet generally accepted accounting criteria for deferral. This assessment is made on a quarterly basis. Research and development costs are reduced by the related government assistance, tax incentives and revenues.

Amortization commences once the product has achieved commercial acceptance, and is calculated utilizing the straight-line method over the remaining economic life of the product, not exceeding three years.

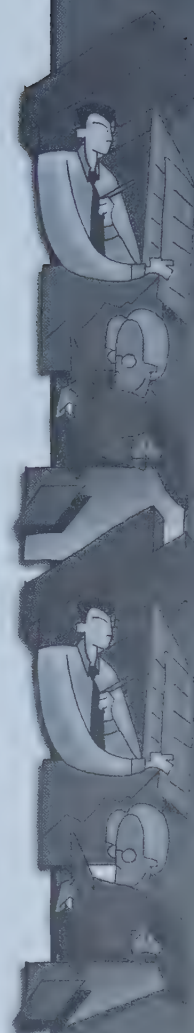
(f) Revenue recognition:

Software license fees are recognized as revenue upon fulfillment of all significant obligations under the terms of the license agreements. Revenue related to customized software packages, including implementation and installation services, is recognized on the percentage-of-completion basis. Fees from software support agreements are initially recorded as deferred revenue and recognized over the term of the agreements.

(g) Foreign currency translation:

All operations undertaken in currencies other than Canadian dollars have been determined to be self-sustaining. These operations relate to SourceSyc, Inc., a discontinued operation in these financial statements (see note 7). The revenues and expenses of such operations are translated at exchange rates prevailing during the fiscal year. The assets and liabilities of these non-Canadian operations are translated at fiscal year end exchange rates. The resulting unrealized exchange gains or losses are accumulated as the cumulative translation account.

Other monetary assets and liabilities which are denominated in foreign currencies are translated to Canadian dollars at fiscal year end exchange rates, and transactions included in earnings are translated at rates prevailing during the fiscal year. Exchange gains and losses resulting from the translation of these amounts are included in the consolidated statements of operations.



Notes to Consolidated Financial Statements Years ended January 31, 1999 and 1998

1. Significant accounting policies, continued:

(h) Earnings per share:

Basic earnings (loss) per share has been calculated using the weighted average number of common shares outstanding during the year. Had the shares under option, referred to in note 6(b), been exercised in 1999, earnings per share would not have changed materially.

(i) Comparative figures:

Certain of the figures for 1998 have been reclassified to conform with the presentation adopted for 1999. These reclassifications relate primarily to the discontinued operations as described in note 7.

2. Capital assets:

			1999
	Cost	Accumulated amortization	Net book value
Computer and production equipment	\$2,433,240	\$1,814,275	\$618,965
Leasehold improvements	521,869	492,268	29,601
Office furnishings and equipment	832,821	494,094	338,727
Computer software	363,298	240,778	122,520
	\$4,151,228	\$3,041,415	\$1,109,813

			1998
	Cost	Accumulated amortization	Net book value
Computer and production equipment	\$2,737,309	\$1,716,809	\$1,020,500
Leasehold improvements	520,034	243,847	276,187
Office furnishings and equipment	935,298	413,824	521,474
Computer software	467,411	177,240	290,171
Automotive equipment	32,673	12,214	20,459
	\$4,692,725	\$2,563,934	\$2,128,791

Included in amortization in the current year are write-downs of capital assets totalling approximately \$250,000 to reflect Management's revised estimates of the recoverable value of the capital assets.

Acquisition of assets and related business

Effective September 24, 1998, the Company acquired certain assets and the related business from a pre-press operation and video and multimedia production company. The total cash purchase price of \$225,000 was allocated to capital assets.

Notes to Consolidated Financial Statements

Years ended January 31, 1999 and 1998

3. Advances to joint venture:

During fiscal 1998, the Company and an unrelated party entered into a joint venture incorporated as Com-Do Corp. to produce a Taekwon-do multimedia encyclopedia on CD-ROM. In exchange for the contribution of resources and production services recorded at \$190,000 (but valued by Management at \$390,000), the Company received a 50% interest in the joint venture. To January 31, 1999, the excess of the Company's funding over its proportionate share of the joint venture's assets was \$9,630 (1998 - \$36,380).

The consolidated financial statements include the Company's proportionate share of revenues (\$120,165; 1998 - \$NIL), expenses (\$125,397; 1998 - \$3,538), assets (\$55,146; 1998 - \$154,374), liabilities (\$63,915; 1998 - \$157,911) and deficit (\$8,769; 1998 - \$3,537) of its joint venture.

4. Long-term investment:

Effective March 1, 1998, the Company transferred the Nereus multimedia publishing software assets and liabilities included in its product development and distribution segment to a new wholly-owned subsidiary, Nereus Technologies, Inc., subsequently renamed iKnowledge, Inc. Following the transfer, unrelated third parties purchased a 54.55% interest in iKnowledge, Inc. by subscribing for \$6,000,000 of treasury shares in iKnowledge, Inc. Each of the Company and the unrelated third parties are shareholders of the same class of shares issued by iKnowledge, Inc. and are subject to a shareholders' agreement.

The long-term investment was originally recorded at \$494,770, being the Company's carrying value of the capital assets transferred on March 1, 1998.

As at January 31, 1999, the Company continues to record this investment at the original value. Management did not record a gain on the disposition of the interest in the net assets because iKnowledge, Inc. is considered to be a development stage enterprise and near term earnings therefrom are not determinable.

5. Loans payable:

	1999	1998
Proportionate share of the demand loan of joint venture, bearing interest at the lender's prime rate plus 2% (1998 - prime rate plus 4%), secured by a general security agreement over the Com-Do joint venture described in note 3	\$53,750	\$104,250
Interest-free loan	-	395,552
	<u>\$53,750</u>	<u>\$499,802</u>





Notes to Consolidated Financial Statements

Years ended January 31, 1999 and 1998

5. Loans payable, continued:

The Company has provided a \$100,000 guarantee on the joint venture's loan. Subsequent to January 31, 1999 the guarantee was reduced to \$35,000.

In 1998, the Company had an unsecured interest-free loan from the Government of Canada, Department of Western Economic Diversification, to assist with the development of the Company's proprietary products. In the 1999 year, the balance of the loan was fully repaid.

6. Share capital:

	1999	1998
Authorized in unlimited number:		
Class A and B voting common shares		
Class C and D non-voting common shares		
Class P-1 preferred shares		
Issued:		
17,640,987 Class A shares		
(1998 - 18,300,987 shares)	\$13,775,125	\$14,288,642

(a) Contributed surplus:

During the year ended January 31, 1999, the Company repurchased for cancellation 660,000 of its Class A common shares for cash consideration of \$92,966. The excess (\$420,551) of the average stated value over the shares' repurchase cost was credited to contributed surplus.

(b) Stock options:

The Company has reserved up to 10% of the issued and outstanding shares for issuance of options under its stock option plan. To January 31, 1999, the Company has granted options for the purchase of 1,554,763 (1998 - 1,319,613) Class A shares at \$0.15 to \$1.00 per share to its employees, directors and consultants expiring during the period from February, 1999 to December, 2003.

7. Discontinued operations:

Origin and history of SourceSys, Inc.

Effective January, 1997, the Company and an unrelated entity entered into an agreement to establish a joint venture, SourceSys, Inc. In exchange for assets contributed by the Company, which included the rights to the SmartCatalog software developed by the Company, the Company received consideration of 2,000,000 common shares representing a 50% interest in the joint venture. In addition, the Company received a promissory note receivable of \$1,000,000 U.S., bearing interest at 3% per annum. The contribution of these assets was reflected in these financial statements at the Company's share of the original carrying value, and no gain was to be recognized until such time as the joint venture commenced repayment of the promissory note.

Notes to Consolidated Financial Statements

Years ended January 31, 1999 and 1998

7. Discontinued operations, continued:

In November, 1997, SourceSys, Inc. recognized a permanent impairment in value of the SmartCatalog software and the goodwill arising on the establishment of the joint venture's accounts. In addition, the venturers agreed to exchange their outstanding debt in SourceSys, Inc. for additional shares in the joint venture. As a result of this transaction, the Company's promissory note receivable of \$1,000,000 U.S. in addition to the Company's working capital advances of \$625,000 U.S. were converted into equity. This transaction resulted in the inclusion of the Company's share of the application by the joint venture of contributed surplus to deficit of \$109,755.

As a result of the debt to equity conversion in SourceSys, Inc., the Company's share in the joint venture increased from 50% to 57.76%. Despite the increase in share ownership, a voting agreement between the two venturers precluded the Company from controlling SourceSys, Inc. and consequently joint control was retained.

Sale of interest in SourceSys, Inc.

Effective June 10, 1998, the Company sold its 57.76% interest in the assets and liabilities of SourceSys, Inc. for \$3,564,630, receivable in five installments. At January 31, 1999, \$254,900 is held in escrow and has not been recognized as proceeds, subject to any indemnification claims.

As of January 31, 1999, all of the Company's interests in the SourceSys, Inc. assets and liabilities have been removed from the Company's balance sheet. The Company's portion of the net assets of SourceSys, Inc. held at January 31, 1998, was comprised of:

Current assets	\$ 208,352
Advances	130,875
Capital assets	211,583
Goodwill	374,000
	924,810
Current liabilities	(591,521)
Other liabilities	(7,840)
Cumulative translation account	40,713
	\$ 366,162

The Company's proportionate share in the goodwill recorded by SourceSys, Inc. was being amortized on the straight-line basis over a three year period.



Notes to Consolidated Financial Statements
Years ended January 31, 1999 and 1998

7. Discontinued operations, continued:

Statement of operations

The results of discontinued operations have been included in the consolidated statement of operations as follows:

	1999	1998
Sales	\$421,595	\$849,229
Gross profit	\$267,888	\$359,764
Expenses	154,291	1,319,142
Earnings (loss)	113,597	(959,378)
Income tax provision	(50,665)	-
Net earnings (loss)	62,932	(959,378)
Gain on disposal of discontinued operations	2,992,398	-
Less income tax provision thereon	(1,000,957)	-
Net gain on disposal	1,991,441	-
Earnings (loss) from discontinued operations	\$2,054,373	\$(959,378)

8. Commitments:

The Company is committed to the following minimum annual rental payments under operating lease agreements for premises:

2000	\$163,021
2001	\$101,442
2002	\$101,442
2003	\$101,442
2004	\$76,082

9. Research and development:

Costs related to product research and product development which do not meet the Company's criteria for deferral have been expensed. These costs include direct expenses for research, product development, market development and an allocation of related overhead expenses.

	1999	1998
Research and development expenditures	\$66,267	\$1,042,439
National Research Council funding	-	(7,920)
Amortization of related capital assets	-	(66,612)
	\$66,267	\$967,907

Notes to Consolidated Financial Statements

Years ended January 31, 1999 and 1998

10. Income taxes:

The expected effective tax rate for an Alberta public company is approximately 45%. During 1999, the Company incurred a loss from continuing operations of \$2,012,867 and a gain on disposal of discontinued operations of \$2,992,398. An income tax provision of 45% was applied to the taxable gain on disposal (as well as to the earnings from discontinued operations). The Company has applied the losses from continuing operations (as well as prior year losses) against the income from discontinued operations. The resulting benefit is reflected as a component of continuing operations.

In addition, during 1999 the Company transferred its Nereus multimedia publishing software (see note 4) to iKnowledge, Inc. Although for accounting purposes no gain was recognized, for income tax purposes the Company recorded taxable income of approximately \$3,200,000 on the transfer. This taxable income was offset by the application of prior years' losses carried forward from continuing operations.

The Company has non-capital losses carried forward for income tax purposes of approximately \$4,470,000 (1998 - \$7,002,000) which may be applied against future years' taxable income. These losses expire primarily in the years 2002 to 2006.

As of January 31, 1999, the Company has approximately \$360,000 (1998 - \$360,000) of unutilized investment tax credits available for income tax purposes. These credits may be used to reduce future federal taxes payable. These credits expire between the years 2003 and 2009.

In addition, the Company has deductions available for income tax purposes in excess of those available for accounting purposes in the amount of approximately \$1,060,000 (1998 - \$957,000).

The potential income tax benefits of the losses carried forward, the unrecorded investment tax credits and the additional income tax deductions available have not been recognized in these financial statements.

11. Financial instruments:

(a) Fair values:

The carrying values of cash and short-term investments, accounts receivable and accrued revenue, accounts payable and accrued liabilities and loans payable approximate their fair values due to the relatively short periods to maturity of the instruments.

The fair value of the advances to the joint venture is not significantly different from its carrying value.





Notes to Consolidated Financial Statements

Years ended January 31, 1999 and 1998

11. Financial instruments, continued:

(b) Credit risk:

The Company has no individually significant credit risks at January 31, 1999.

(c) Credit facilities:

Effective January 30, 1998, the Company entered into a financing arrangement with authorized credit facilities of up to \$1,300,000 representing a revolving loan of up to \$1,000,000 to finance working capital and a \$300,000 reducing loan to purchase computer equipment and software. The credit facilities are secured by a general security agreement covering all assets of the Company. The revolving loan bears interest at prime plus 0.75% and the reducing loan will bear interest at prime plus 1.25%. As at January 31, 1999, no amounts were yet drawn on this available credit facility.

12. Uncertainty due to the Year 2000 Issue:

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Company's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of customers, suppliers or other third parties, will be fully resolved.

13. Segment disclosures:

The Company has two reportable segments based on the products and services it provides: Media Production Services and Product Development and Distribution. The Media Production Services segment provides media production services including video, audio, graphics, multimedia programming, CD-ROM creation and Web and Internet authoring. Also included in this segment are print and pre-press services. The Product Development and Distribution segment creates and distributes multimedia software applications including the Nereus multimedia publishing software and the SAFE-T-Disc line of training products. The accounting policies of the segments are the same as those described in note 1. The Company evaluates performance based on earnings before interest and income taxes ("EBIT").

Notes to Consolidated Financial Statements

Years ended January 31, 1999 and 1998

13. Segment disclosures, continued:

The assets and results of operation of the two segments are as follows:

1999	Media Production Services	Product Development and Distribution	Corporate	Total
Segment assets	\$1,601,524	\$237,648	\$3,446,751	\$5,285,923
Canadian source revenue	4,172,551	388,273	-	4,560,824
Foreign source revenue	13,143	60,367	-	73,510
Revenues from external customers	4,185,694	448,640	-	4,634,334
Interest income	155	-	70,305	70,460
Intersegment revenues	31,988	11	(31,999)	-
Amortization of capital assets and goodwill	406,587	16,956	391,707	815,250
Segment loss	(572,374)	(72,569)	(1,367,924)	(2,012,867)
Income tax benefit recognized				1,051,622
Loss from continuing operations				(961,245)
Discontinued operations (note 7)				2,054,373
Net earnings for the year				\$1,093,128

1998	Media Production Services	Product Development and Distribution	Corporate	Total
Segment assets	\$1,842,462	\$1,040,513	\$2,082,979	\$4,965,954
Canadian source revenue	4,448,341	615,569	-	5,063,910
Foreign source revenue	41,016	291,085	-	332,101
Revenues from external customers	4,489,357	906,654	-	5,396,011
Interest income	-	-	100,474	100,474
Intersegment revenues	213,552	8,501	(222,053)	-
Amortization of capital assets and goodwill	225,723	107,824	120,269	453,816
Segment loss	(128,769)	(2,757,921)	(1,300,182)	(4,186,872)
Discontinued operations (note 7)				(959,378)
Net loss for the year				\$(5,146,250)



CORPORATE INFORMATION

Management & Directors

Daniel Chugg

Chairman of the Board
President & Chief Executive Officer
Vicom Multimedia Inc.
Edmonton, Alberta

Michael Lang

Director
Vice Chairman, Beau Canada Exploration Ltd.
Calgary, Alberta

William DeJong

Director
Partner, Ballem MacInnes
Calgary, Alberta

Barry Chugg

Director
Vice President
Vicom Multimedia Inc.
Calgary, Alberta

Dale Hardy

Director
Information Systems Management
(B.C.) Corporation
Vancouver, B.C.

Paul Braconnier

Chief Financial Officer
Vice President, Finance
Vicom Multimedia Inc.
Edmonton, Alberta

William (Bill) Koenig

Director
Senior Vice President
Denro Fund Management
Calgary, Alberta

ANNUAL MEETING

The annual meeting of shareholders of Vicom Multimedia Inc. will be held at 10:00 am on Thursday, June 24, 1999 at the Royal Inn West Edmonton 10010 - 178 Street Edmonton, Alberta.

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KPMG
Edmonton, Alberta

Legal Counsel

Ballem MacInnes
Calgary, Alberta

Bankers

Royal Bank of Canada
Edmonton, Alberta

Registrar and Transfer Agent

RM Trust Company
Calgary, Alberta

Stock Exchange Listing

The Alberta Stock Exchange
Trading Symbol: VMI

Produced in-house by Vicom Media Productions.
Illustrations by S. Tsuida.
Design and layout by D. Woolsey.
Printed by Speedfast Color Press Inc.

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